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CURRENT BACKGROUND

TO: Financial Editors/Analysts

FROM: M.E. Bogard

RE: CONSOLIDATED TEXTILE MILLS LIMITED

Consolidated Textile Mills Limited is a holding company with a noteworthy earnings record. Through its wholly-owned subsidiaries, the company manufactures nylon, polyester, rayon and mixed synthetic fabrics primarily for the garment industry. It operates three mills and one dyeing and finishing plant which are located in Quebec and Ontario. It also services the equipment and trains personnel in the use of the "Nissan Water Jet Loom" in co-operation with Nissan Motor Co., Tokyo, Japan.

The company currently ranks itself number two among Canadian manufacturers of filament synthetic fabrics behind Chemcell Limited and number three in total dollar value behind Chemcell Limited and Bruck Mills Limited.

A long time member of the Canadian textile industry (incorporated in 1929 and a public company since 1946), Consolidated showed an uneven performance until 1964 when new management was installed. With increased emphasis on operating efficiency and reduced unit costs together with a view toward expansion through acquisitions, the company assumed a new corporate posture. The 1967 loss of $283,000 resulted from a combination of factors including the backwash from prolonged supplier labor unrest in 1966 and the temporary unsettling effect of internal re-organization and re-alignment of the company's overall business structure in 1967. While changes instituted during that period have since brought consistently rising earnings, the market value of the company shares has languished.

Since 1967, the company's shares have traded at levels of 5-3/4 — 19-1/2 despite the company's improved earnings position ($2.54 per share in 1969). First quarter earnings for the current year were $207,403 or 87¢ per share compared with $119,810 (50¢ per share) for the same period in 1969.

OPERATIONS

The company specializes in the manufacture of fabrics for the casual and leisure markets.

Because of frequent changes in fashion trends in this segment of the garment industry it is less vulnerable to foreign competition.

Production at the company's weaving mills is geared to actual and anticipated market demand. Long run orders for established fabric lines are produced at the St. Hyacinthe, Quebec mill while moderate to short runs for new materials are handled at the company's Joliette and Magog plants. Relative to total production, these mills operate in a comparative ratio of 4:2:1 respectively.

Exports account for about 14% of sales thus serving to ease pressures on domestic prices and to reduce unit costs by permitting long production runs.

NISSAN WATER JET LOOM

This new loom, developed by the Nissan Motor Company of Tokyo, utilizes a water jet technique to speed production. The yield is improved quality and reduced unit costs. As part of its North American franchise rights, Consolidated has established a subsidiary – North American Water Jet Service Limited. This division located in Alexandria, Ontario operates a training school and development centre for Canadian and American users of the loom. It also offers engineering and installation services.

GOVERNMENT TEXTILE POLICY

Consolidated has performed well during a difficult period for the textile industry as a whole. It has been successful, particularly since 1967, in realizing increasing earnings despite the general contraction of profits elsewhere in the industry, principally through effective management. The Federal Government's recently announced textile policy aims to assist those elements within the Canadian textile industry which have demonstrated their ability to maintain viable operations and compete successfully in both the domestic and export markets. On both these counts Consolidated Textile Mills has performed well with a proven earnings record and a high export ratio. With 14% of its total annual sales being shipped abroad, the company maintains the highest export ratio in the Canadian textile industry. Furthermore, the Government has pledged to encourage negotiations with a number of western nations, particularly the United States for improved "terms of access" for Canadian textile products. In light of these developments, Consolidated Textile Mills should be in an excellent position to realize substantial benefits from this new policy.

RECENT DEVELOPMENTS

– Consolidated has moved into the snowmobile and leisure apparel markets with its "Polar Guard" waterproof fabrics.

– A three year labor contract has been signed with the CNTU covering the Joliette and St. Hyacinthe plants.

– The company's dyeing and finishing operations in Alexandria have been expanded to accommodate a larger percentage of its weaving production.

CAPITAL POSITION

Authorized capital is 1,000,000 common shares with 238,482 shares outstanding. Employee options have been issued for 6,000 shares exerciseable at $17.32 per share until January 31, 1971 and 5,800 at $12 until February 24, 1971. In addition 50,000 shares could be issued through the exercise of outstanding warrants (at $25 to February 1, 1972 and thereafter at $28 to 1975). Total potential dilution is 24%; however, this does not appear imminent in view of the difference between exercise cost and the current market price of the company's shares.

Since 1965 Consolidated has maintained a consistent growth record except for a downside turn in earnings in 1967. Working capital (1969) totalled $3.0 million, or $12.60 per share (ratio 1:6:1). Shareholder equity rose to $4.2 million or $17.80 per share, well above the current trading price of the stock.

PERFORMANCE

PERFORMANCE RECORD

Year ended December 31

	1970	1969	1968	1967	1966	1965
Revenue	1st quarter $3.6m	$16.8m	$17.3m	$11.6m	$11.5m	$12.3m
Profit	207,403	605,158	426,000	(283,000)	317,000	676,000
Per Share	0.87	2.54	1.79	(1.20)	1.34	2.85
Assets	–	$12.8m	$12.2m	$12.3m	$13.0m	$11.4m
Long Term Debt	–	3.5m	3.7m	3.8m	4.0m	2.2m
Working Capital	–	3.0m	2.6m	2.4m	2.8m	1.1m
Shareholder Equity	–	4.2m	3.6m	3.2m	3.6m	3.3m
Equity Per Share	–	$17.74	$15.12	$13.40	$15.00	$14.42

Price/Earnings ratio 4.4X in 1969.
3X estimated for 1970 at present $12.00 market level and anticipated earnings of approximately $4.00 per share.

SUMMARY

The company has shown impressive progress since 1967 when it reported its first (and only) loss in 24 years of operations. This can be attributed to internal re-organization, new product lines and management's ability to anticipate market potential. As shown above 1969 earnings moved to $605,158 or $2.54 per common share, giving the stock a 4.4x P/E ratio at a $11-1/4 level. During first quarter 1970 Consolidated continued to outperform the textile industry with a 74% boost in profits.

Earnings momentum is expected to continue through the remainder of 1970 with the government's newly-announced textile policy adding stability to the industry in general and the company in particular. Forward order position is strong and the servicing of the Nissan Water Jet Looms, which have won acceptance with many Canadian and American textile manufacturers, should also add to earnings. Overall returns for 1970 are projected in excess of $4.00 a share.

MANAGEMENT

Management of the company is headed by D. Taran, president, J. Rimerman, vice-president and Mr. M. Rabinovitch, secretary-treasurer, each of whom has had extensive business experience. Including the middle tier of the company's management structure the average period of experience in the textile industry is 22 years. The average age of the management group is 42 years.

Control of the company is held by the management group.